PUBLIC DISCLOSURE

July 21, 1997

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

FARMERS STATE BANK
376657
10-29-5330

MAIN STREET
STANBERRY, MISSOURI 64489

NOTE: **This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Farmers State Bank, Stanberry, Missouri, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of July 21, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Farmers State Bank has a satisfactory record of helping to meet the credit needs of its entire assessment area. The bank's loan-to-deposit ratio is reasonable given its size, financial condition and assessment area credit needs. The majority of loans reviewed are within the bank's assessment area. In addition, the distribution of loans among borrowers of different income levels and farms of varying sizes is reasonable.

DESCRIPTION OF INSTITUTION

Farmers State Bank is a small community bank located in Stanberry, Missouri, approximately 90 miles north of Kansas City. The bank's office and drive-up facility on Main Street are readily accessible to the community. The bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, resources, and product offerings. According to the March 31, 1997 Consolidated Report of Condition and Income (Call Report), the bank's assets totaled $38,043M.

As shown below in the loan product distribution table, the bank is primarily an agricultural lender; however, the bank offers a variety of loan products to meet the needs of those residing within its assessment area. Some of these include, but are not limited to: agricultural, commercial, consumer purpose, home purchase and refinance, Farmers Home Administration (FmHA), Small Business Administration (SBA), and Missouri First Linked Deposit (MFLD).

THE BANK'S LOAN PORTFOLIO (as of 3/31/97)		
Loan Type	**Amount ($000)**	**Percent of Total**
Farmland or agricultural	12,266	69
1- to 4-Family real estate	2,274	13
Consumer	1,656	9
Commercial	1,026	6
Nonfarm nonresidential	441	2
Other	6	1
TOTAL	17,669	100

The bank's CRA performance was last reviewed as of March 18, 1996, when a Satisfactory rating was assigned.

DESCRIPTION OF FARMERS STATE BANK'S ASSESSMENT AREA

The bank's assessment area comprises three Block Numbering Areas (BNAs) in the northwest part of the state. These BNAs cover all of Gentry County and the southeastern portion of Nodaway County, and had a total population of 11,322 as of the 1990 Census. Almost three-quarters of the area's households were family as opposed to nonfamily households. The assessment area's 1990 median family income was in the middle-income range, and unemployment compares favorably to statewide rural areas.

Important assessment area characteristics are summarized in the following table:

BANK ASSESSMENT AREA CHARACTERISTICS (as of 1990 Census)	
BNA Summary	
Total Number of BNAs	3
Percent Middle-Income BNAs	100%
Income Summary	
Median Family Income	$24,938
Percent Low-Income Families	18%
Percent Moderate-Income Families	19%
Percent Middle-Income Families	22%
Percent Upper-Income Families	41%
Unemployment Summary	
Labor Force Population (Assessment Area)	5,231
Percent Unemployment (Assessment Area)	3.7%
Percent Unemployment (Non-Metro, State)	6.8%
Miscellaneous Information	
Total Population	11,322
Percentage of Families Below Poverty Level	13.5%
Percentage of Housing Units Vacant	13.3%

Regional Employment and Income Series (REIS) data indicates that between 1993 and 1994, the total population of both counties declined by 1.3 percent. However, Gentry County, which comprises the majority of the bank's assessment area, experienced a modest 1.5 percent population increase.

Nonfamily households were primarily elderly persons who typically require loans less often than families. The city of Stanberry, where the bank is located, had a greater population age disparity than the assessment area as a whole. Census figures indicate that 32 percent of the city's population was at least 65 years old. Like other rural communities, the assessment area experienced a migration of young adults from the area. As a percent of the total population, the number of individuals between 18-24 years of age was 7.4 percent, which is lower than the statewide rural average of 9.9 percent. A local business person in Stanberry indicated that many of the younger individuals leave the area to go to college and never return, or they move away from the area in search of higher paying jobs. In addition, several farmers and ranchers have chosen to build new homes and retire in Stanberry.

As of the 1990 Census, upper-income families comprised the largest percentage of the population at 41 percent. However, low- and moderate-income families comprised 37 percent of the population, so that the median family income is in the middle-income category. The median family income for the bank's assessment area was consistent with that for all rural areas in Missouri, although slightly higher.

REIS data shows that from 1990 to 1994, the assessment area employment base grew by 4.4 percent despite an overall population decrease. A local business person in Stanberry stated that many individuals continue to work after reaching retirement age. While the unemployment rate is low, many jobs in the assessment area tend to be lower paying. Some residents commute to higher-paying jobs in larger towns outside the assessment area, such as Maryville and Chillicothe, Missouri.

Housing in the assessment area is highly affordable, but this is because much of the stock is inferior and demands low prices. Community contacts stated that many of the homes in the area are priced either below $30 thousand or above $100 thousand. Forty-eight percent of the area's housing stock was built prior to 1950, as compared to 27.7 percent for other statewide rural areas. Contacts also stated that many of the homes below $30 thousand are not suitable for growing families and are in severe disrepair. These comments indicate a need for livable, low- and moderate-priced housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. These included a review of the bank's level of lending in relation to its deposits and that of other comparable financial institutions; the penetration of loan originations inside and outside the bank's defined assessment area; the bank's record of lending to borrowers of different income levels and to farms of various sizes. In addition, two local business owners were contacted to gather additional information about the community's credit needs and to confirm that the products offered by the bank met those needs.

In order to analyze the bank's lending record, statistical samples of two loan products were reviewed during the course of the examination. Agricultural loans were selected because they comprised 69 percent of the bank's total dollars loaned and generated the second largest number of loan originations since the last examination. Consumer loans comprised the largest number of originations and the third largest dollar percentage of the bank's portfolio and were selected for review in lieu of residential real estate loans. While more dollars were loaned for residential estate-related credit, only 35 such loans were originated since the last examination. Therefore, examiners determined that the consumer loan portfolio would be more representative of the bank's lending performance.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio meets the standards for satisfactory performance given the institution's size, location, financial condition and current economic conditions. Based on data for the five calendar quarters beginning March 31, 1996, the bank's average loan-to-deposit ratio was 54.84 percent, as compared to an average ratio of 60.59 percent for the bank's national and state peer group. The bank's peer group consists of insured commercial banks with assets between $25MM and $50MM, located in a nonmetropolitan area, and having no more than two offices.

This 54.84 percent ratio is also lower than the three most comparable banks operating in the bank's assessment area. These three banks reported loan-to-deposit ratios ranging from 60.19 percent to 68.85 percent over the same period. While the bank's average loan-to-deposit ratio is one of the lowest in the area, its quarterly ratios have improved from a low of 47.80 percent on June 31, 1996, to a high of 57.43 percent on March 31, 1997.

Loan Distribution by Borrower Income/Revenues

The distribution of loans to small farms was especially strong. Of the 39 agricultural loans originated within the assessment area, all were made to small farms, that is, farms with $1 million or less in gross annual revenues. In addition, all sampled loans were for amounts less than $100 thousand, which is also indicative of a strong lending record to small farms and businesses.

The bank's distribution of consumer loans among borrowers of different income levels is reasonable and is illustrated in the table below. This table compares the percentage of borrowers within the differing income levels to the total sample of consumer loans and to the family income demographics of the assessment area.

DISTRIBUTION OF CONSUMER LOANS REVIEWED BY INCOME LEVEL OF BORROWER		
Income Level of Borrower	**Percentage of Consumer Loans Reviewed**	**Percentage of Families in the Bank's Assessment Area**
Low (<50 percent of median family income)	46	18.5
Moderate (50 to <80 percent of median)	19	18.8
Middle (80 to <120 percent of median)	19	22.0
Upper (>=120 percent of median)	16	40.7
Total	100	100

The majority of consumer loans originated were to borrowers with low- or moderate-incomes, and the percentage to low-income borrowers in particular far exceeds the percentage of low- income families within the bank's assessment area. It should be noted, however, that because completed applications and financial statements were unavailable for a majority of the sampled consumer loans, the analysis was based on loan officer estimates of gross annual incomes. For this reason, the loan distribution by borrower income was not given the same weight as it would have been had actual income figures been available.

Geographic Distribution of Loans

The sample of 43 consumer and 42 agricultural loans reviewed during the examination shows that a majority of the bank's lending occurs inside its assessment area. Eighty-six percent of the bank's consumer loans and 93 percent of its agricultural loans were originated within the assessment area. Moreover, 67 and 96 percent of the consumer and agricultural dollars loaned were to borrowers within the assessment area, respectively. Of the entire loan sample reviewed, 89 percent of the loans were originated within the assessment area.

An analysis of the bank's record of lending to low- and moderate-income BNAs was not conducted, since the bank's assessment area consists entirely of middle-income BNAs.

Other Matters

No CRA-related complaints have been received by the bank since the previous examination. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. A review of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage applications. Although technical violations of Regulation B were identified, none were discriminatory in nature. Management stated that internal controls would be strengthened to ensure future compliance.